AT&T

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Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW, Room TWB-204
Washington, DC 20554

Re: *Application by Verizon-New Jersey Inc. for Authorization to Provide In-Region, InterLATA Services in the State of New Jersey, WC Docket 02-67*

Dear Ms. Dortch:

On Tuesday, May 21, 2002, Frederick Pappalardo, Michael Baranowski, Michael Boyles and the undersigned, all representing AT&T, had a telephone conversation with Richard Kwiatkowski of the Wireline Competition Bureau's Pricing Policy Division. During this discussion, AT&T provided an overview of the analysis set forth in Exhibit 1.a - 1.c of the Supplemental Declaration of Michael R. Baranowski on behalf of AT&T Corp. submitted on April 30, 2002 ("April 30 Ex Parte") and responded to specific questions relating to the sources of certain inputs reflected in those Exhibits.

Under a forward-looking switching cost model, the portion of minute of use (MOU) rate that is designed to recover initial switching investment, when multiplied by the assumed total minutes of use, should, over the life of the switch, recover exactly the total switch investment (excluding the investment recovered through the port charge). The switch usage rate analysis in AT&T's April 30 Ex Parte tested this concept using Verizon's New Jersey switching rates, and found that these rates failed the test. Specifically, AT&T demonstrated, using the Verizon switch cost model adopted by the New Jersey Board of Public Utilities to establish UNE switching costs and rates, that Verizon's New Jersey switching MOU rate will generate a significant (149%) over-recovery of forward-looking switching investment. *See* April 30 Ex parte, Exhibit 1.a-1.c. A major contributor to this over-recovery is Verizon-New Jersey's rate design proposal that includes a separate additive for vertical features usage with its switch usage charges.

In response to inquiries regarding the source for specific data contained in the April 30 Ex Parte, AT&T explained that the SCIS data underlying Exhibits 1.a - 1.c were produced by Mr. Baranowski using information supplied by Verizon modified by unchecking the "Setup-System-ISDN Miscellaneous Options - Weight Investments for POTS Lines on ISDN Peripherals with Other POTS Lines?" option. This setting instructs the SCIS model to more clearly disaggregate its investment and line count outputs between analog and TR-303 service, thereby producing disaggregated investment totals. It was shown that the data set forth in the exhibits were extracted from the Verizon switch cost models submitted by Verizon in the above-referenced proceeding.

Lastly, AT&T explained that Verizon's selection of a complex, bottom-up calculation of switch usage cost instead of a more traditional and straightforward top down analysis where the usage related portion of total switch investment is spread over the projected minutes of use introduces unnecessary layers of complexity into the UNE rate development process. An example of this complexity and a cause of the over-recovery of its costs is Verizon's decision to include a vertical features component to the minute of use rate even though vertical feature costs generally are not traffic-sensitive.

One electronic copy of this Notice is being submitted to the Secretary of the FCC in accordance with Section 1.1206 of the Commission's rules.

Sincerely,

Amy L Alvarez

cc: Alexis Johns
Richard Kwiatkowski
Susan Pie
Joshua Swift
Ann Berkowitz